

**REPORT OF THE AUDIT OF THE  
OWSLEY COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE OWSLEY COUNTY FISCAL COURT**

**June 30, 2004**

The Auditor of Public Accounts has completed the audit of the Owsley County Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information.

#### **Financial Condition:**

The fiscal court had net assets of \$1,597,457 as of June 30, 2004. The fiscal court had unrestricted net assets of \$258,018 in its governmental funds as of June 30, 2004. The fiscal court had total debt principal outstanding as of June 30, 2004 of \$223,093 with \$68,705 due within the next year.

Three Forks Regional Jail is a joint venture of the fiscal court. It has been disclosed in a separate audit report there is a substantial doubt of the jail's ability to continue as a going concern. The fiscal court has included this concern in the notes to the financial statements.

#### **Report Comment:**

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits At All Times

#### **Deposits:**

The fiscal court's deposits were not adequately insured and collateralized by bank securities or bonds.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Cale Turner, Owsley County Judge/Executive  
Members of the Owsley County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owsley County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Owsley County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Owsley County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Owsley County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Cale Turner, Owsley County Judge/Executive  
Members of the Owsley County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Owsley County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 1, 2005 on our consideration of Owsley County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present a schedule of comments and recommendations, included herein, which discusses the following report comment:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits At All Times

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
March 1, 2005



OWSLEY COUNTY OFFICIALS

For The Year Ended June 30, 2004

**Fiscal Court Members:**

Cale Turner	County Judge/Executive
Bill Hall	Magistrate
Jesse Bishop, Jr.	Magistrate
Mike Harris	Magistrate

**Other Elected Officials:**

Henley McIntosh	County Attorney
Hubert Shouse	Jailer
Sid Gabbard	County Clerk
Mike Mays	Circuit Court Clerk
Kelly Shouse	Sheriff
Monica Barrett	Property Valuation Administrator
Eddie Isaacs	Coroner

**Appointed Personnel:**

Christine Moore	County Treasurer
Barbara Whittaker	Finance Officer



**Management's Discussion and Analysis**  
**June 30, 2004**

The financial management of Owsley County, Kentucky offers readers of Owsley County's financial statements this narrative overview and analysis of the financial activities of Owsley County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

**Financial Highlights**

- Owsley County had net assets of \$1,597,457 as of June 30, 2004. The fiscal court had unrestricted net assets of \$258,018 in its governmental funds as of June 30, 2004. Total debt principal as of June 30, 2004 was \$223,093 with \$68,705 due within one year.
- The government's total net assets increased by \$530,711 from the prior year. This increase is primarily due to infrastructure assets included on the current year Statement of Net Assets that were not included on the prior year Statement of Net Assets. The Owsley County Fiscal Court is a Phase III government for GASB 34 reporting; therefore, retroactive reporting of infrastructure assets is not required. Infrastructure assets have been reported on the Statement of Net Assets for fiscal year 2004 and will continue to be included in future reporting periods, but were not included on prior financial statements.
- At the close of the current fiscal year, Owsley County's balance sheet reported a fund balance of \$258,018. Of this amount, \$245,087 is available for spending at the government's discretion (unreserved fund balance).
- Owsley County's total indebtedness at the close of fiscal year June 30, 2004 was \$223,093, of which \$68,705 is short-term debt (to be paid within 1 year). Debt additions were \$169,193 and debt reductions were \$36,500 for a net increase of \$132,693 during the year. However, Owsley County will purchase road equipment at a cost of \$169,193 at the beginning of the next reporting period.
- In addition, Owsley County completed \$738,632 in road surfacing and reconstruction without incurring additional debt for these items.

**Overview of the Financial Statements**

This management discussion and analysis is intended to serve as an introduction to Owsley County's basic financial statements which are comprised of three components: 1.) government wide financial statements, 2.) fund financial statements, and 3.) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

**Owsley County**  
**Management's Discussion and Analysis**  
**June 30, 2004**  
**(Continued)**

**Government-wide Financial Statements** The *government-wide financial statements* are designed to provide readers with a broad overview of Owsley County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Owsley County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Owsley County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Owsley County's governmental activities include general governmental, protection to persons and property, general health and sanitation, social services, recreation and culture, roads, debt service, capital projects, and administration. Owsley County has no business-type activities.

**Fund Financial Statements** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Owsley County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Owsley County can be classified as governmental funds.

**Governmental Funds** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Owsley County**  
**Management's Discussion and Analysis**  
**June 30, 2004**  
**(Continued)**

Owsley County maintains (6) six individual government funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Road Fund, both of which are considered major funds by the county. The Jail Fund, Local Government Economic Assistance Fund (LGEA), Ambulance Fund, and the Forest Fire Fund are considered non-major funds and are represented in a combined form.

Owsley County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

**Notes to the Financial Statements** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-wide Financial Analysis**

**Net Assets** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**Table 1**  
**Owsley County's Net Assets**

	<b>Governmental Activities</b>	
	<u>2003</u>	<u>2004</u>
<b>Assets</b>		
Current Assets	\$ 195,336	\$ 266,678
Capital Assets	961,810	1,553,872
Total Assets	<u>\$ 1,157,146</u>	<u>\$ 1,820,550</u>
<b>Liabilities</b>		
Current Liabilities	\$	\$ 68,705
Long-term Liabilities	90,400	154,388
Total Liabilities	<u>\$ 90,400</u>	<u>\$ 223,093</u>
<b>Net Assets</b>		
Invested in capital assets, Net of related debt	\$ 871,410	\$ 1,330,779
Restricted	\$ 17,320	\$ 8,660
Unrestricted	178,016	258,018
Total Net Assets	<u>\$ 1,066,746</u>	<u>\$ 1,597,457</u>

**Owsley County  
Management's Discussion and Analysis  
June 30, 2004  
(Continued)**

**Changes in Net Assets**

*Governmental Activities.* Owsley County's net assets increased by \$530,711 in fiscal year 2004. Key elements are as follows:

- Current assets and cash increased \$71,342
- Investment in capital assets, net of related debt increased \$459,369 due to infrastructure assets that were reported in FY 2004 that were not included on the financial statements in FY 2003.
- Current and long-term liabilities increased by \$132,693.
- Revenues were \$2,130,790 as reflected in the Statement of Activities.
- Expenditures totaled \$1,600,079 as reflected in the Statement of Activities.

**Financial Analysis of the County's Funds**

As of June 30, 2004, the combined ending fund balance of County governmental funds was \$258,018. Approximately 95% (\$245,087) consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds.

The County has two major governmental funds and four non-major funds

**Major Funds**

- General Fund
- Road Fund

**Non-major Funds**

- Jail Fund
- Local Government Economic Assistance (LGEA) Fund
- Ambulance Fund
- Forest Fire Fund

1. The General Fund is the chief operating fund of Owsley County. At June 30, 2004, unreserved fund balance of the General Fund was \$149,879, while total fund balance was \$150,943. Approximately \$322,167 was received from real and personal property taxes, motor vehicle taxes, and other taxes, which accounts for about 36% of the county's general fund revenues. Various other taxes and service fees make up the remaining 64% of revenues.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$83,939 in fund balance at June 30, 2004. The fund balance at the end of the previous year was \$105,310. The fiscal year 2004 expenditures for road projects were \$738,632.

**Owsley County  
Management's Discussion and Analysis  
June 30, 2004  
(Continued)**

**Financial Analysis of the County's Funds (Continued)**

3. The Jail Fund is used to account for the operation of the County's detention program. The county does not operate a local jail, but has a joint venture with Wolfe and Lee counties to operate the Three Forks Regional Jail. The Jail Fund is used to contribute monies to the Three Forks Regional Jail based on the terms of the joint venture agreement. More information about the joint venture can be found in the notes to the financial statements. The Jail Fund had a balance at June 30, 2004 of \$14,691. The Jail Fund received \$33,927 for intergovernmental fees, primarily for inmate medical allotment and work release incentives. The General Fund contributed \$123,000 and the LGEA Fund contributed \$30,000 for jail operations.
4. The LGEA Fund had a fund balance of \$8,445 as of June 30, 2004, which is an increase of \$2,347 over the previous fiscal year end balance.
5. The Ambulance Fund and the Forest Fire Fund had balances of \$0 for the fiscal year ending June 30, 2004. These funds were consolidated and transferred to the General Fund during the fiscal year. These funds will no longer appear on the financial statements as separate funds. All activities for these funds will be accounted for in the General Fund beginning in FY 2005.

**General Fund Budgetary Highlights**

The County's original budget was amended during the fiscal year increasing the operating budget by \$211,319. Budget amendments were made to various revenue categories due to unanticipated grants, surplus cash carried forward, and an increase in actual tax collections as opposed to projected collections.

Actual operating revenues were \$313,446 more than the amount originally budgeted by Fiscal Court. This increase was primarily from intergovernmental sources, tax revenues, and excess fees.

Actual operating expenditures were \$308,912 less than the amount originally budgeted by Fiscal Court.

**Capital Assets and Debt Administration**

*Capital Assets.* Owsley County's investment in capital assets for its governmental activities as of June 30, 2004, amounts to \$1,553,872 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, vehicles and current year infrastructure additions.

Major capital asset events during FY 2004 include the renovation of the courthouse's heating and cooling unit, the purchase of road equipment, and the purchase of three vehicles to be used in the government.

Additional information on the County's capital assets can be found in Note 3 of this report.

**Owsley County**  
**Management's Discussion and Analysis**  
**June 30, 2004**  
**(Continued)**

**Table 2**  
**Owsley County's Capital Assets Net of Accumulated Depreciation**

	<b>Governmental Activities</b>	
	<b>2003</b>	<b>2004</b>
<b>Capital Assets</b>		
Land	\$ 83,802	\$ 83,802
Buildings	600,475	672,409
Vehicles & Equipment	277,533	339,251
Infrastructure		458,410
Total Net Capital Assets	<u>\$ 961,810</u>	<u>\$ 1,553,872</u>

*Long Term Debt.* The county has a total of \$223,093 in various capital leases for voting machines, backhoes and other road equipment, and ambulances. Approximately \$68,705 of the capital lease principal outstanding is due within one year. The remaining debt will be retired by 2009.

**Other Matters** The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2004 fiscal year budget:

- The 2004 fiscal year adopted budget continues most services at current levels.
- Program cuts at the State level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for county programs. The county is experiencing financial difficulty regarding the Three Forks Regional Jail and is currently exploring options, along with the other regional jail members (Wolfe and Lee Counties), to improve the financial situation of the Three Forks Regional Jail.

**Requests for Information**

This financial report is designed to provide a general overview of Owsley County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Owsley County Treasurer, P.O. Box 568, Booneville, KY 41314.



**OWSLEY COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2004**



**OWSLEY COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2004**

	<b><u>Governmental Activities</u></b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 258,018
Loan Receivable	8,660
Total Current Assets	<u>266,678</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	83,802
Buildings	672,409
Vehicles and Equipment	339,251
Infrastructure Assets - Net of Depreciation	<u>458,410</u>
Total Noncurrent Assets	<u>1,553,872</u>
Total Assets	<u>1,820,550</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations Payable	<u>68,705</u>
Total Current Liabilities	<u>68,705</u>
Noncurrent Liabilities:	
Financing Obligations Payable	<u>154,388</u>
Total Noncurrent Liabilities	<u>154,388</u>
Total Liabilities	<u>223,093</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	\$ 1,330,779
Restricted For:	
Debt Service	8,660
Unrestricted	258,018
Total Net Assets	<u><u>\$ 1,597,457</u></u>

The accompanying notes are an integral part of the financial statements.

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**OWSLEY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**

**OWSLEY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

<b>Functions/Programs Reporting Entity</b>	<b>Expenses</b>	<b>Program Revenues Received</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
Governmental Activities:				
General Government	\$ 1,062,801	\$ 372	\$ 219,376	\$ 240,393
Protection to Persons and Property	217,306	1,286	61,584	
General Health and Sanitation	12,921	15,813		
Social Services	3,000			
Recreation and Culture	4,090			
Roads	220,101		722,292	442,512
Debt Service	6,961			
Capital Projects	72,899			
Total Governmental Activities	<u>\$ 1,600,079</u>	<u>\$ 17,471</u>	<u>\$ 1,003,252</u>	<u>\$ 682,905</u>

**General Revenues:**

Real Property Taxes  
Personal Property Taxes  
Motor Vehicle Taxes  
Other Taxes  
Excess Fees  
Miscellaneous Revenues  
Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**OWSLEY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2004**  
**(Continued)**

**Net (Expenses) Revenues  
and Changes in Net Assets**

**Governmental  
Activities**

\$	(602,660)
	(154,436)
	2,892
	(3,000)
	(4,090)
	944,703
	(6,961)
	(72,899)

\$	103,549
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	100,582
	7
	14,995
	208,400
	22,352
	78,807
	2,019

	427,162
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	530,711
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	1,066,746
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\$	1,597,457
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The accompanying notes are an integral part of the financial statements.

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**OWSLEY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2004**



**OWSLEY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2004**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Non- Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 150,943	\$ 83,939	\$ 23,136	\$ 258,018
Total Assets	<u>\$ 150,943</u>	<u>\$ 83,939</u>	<u>\$ 23,136</u>	<u>\$ 258,018</u>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	\$ 1,064	\$ 11,499	\$ 368	\$ 12,931
Unreserved:				
General Fund	149,879			149,879
Special Revenue Funds		72,440	22,768	95,208
Total Fund Balances	<u>\$ 150,943</u>	<u>\$ 83,939</u>	<u>\$ 23,136</u>	<u>\$ 258,018</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 258,018
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	2,341,290
Depreciation	(787,418)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(223,093)
Loan Receivable used to offset capital lease principal outstanding	<u>8,660</u>
Net Assets Of Governmental Activities	<u>\$ 1,597,457</u>

The accompanying notes are an integral part of the financial statements.

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**OWSLEY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**



**OWSLEY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Non- Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Taxes	\$ 322,167	\$ 1,757	\$ 60	\$ 323,984
In Lieu Tax Payments	22,477	16,280		38,757
Excess Fees	22,352			22,352
Licenses and Permits	372			372
Intergovernmental	474,787	1,075,558	125,109	1,675,454
Charges for Services	15,813			15,813
Miscellaneous	42,662	6,413	2,964	52,039
Interest	1,019	832	168	2,019
Total Revenues	<u>901,649</u>	<u>1,100,840</u>	<u>128,301</u>	<u>2,130,790</u>
<b>EXPENDITURES</b>				
General Government	686,939	10,800	7,200	704,939
Protection to Persons and Property	900	1,866	199,032	201,798
General Health and Sanitation	9,656		2,697	12,353
Social Services			3,000	3,000
Recreation and Culture	2,500			2,500
Roads		738,632		738,632
Debt Service	25,865	17,596		43,461
Capital Projects		72,899		72,899
Administration	154,405	111,008	5,793	271,206
Total Expenditures	<u>880,265</u>	<u>952,801</u>	<u>217,722</u>	<u>2,050,788</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>21,384</u>	<u>148,039</u>	<u>(89,421)</u>	<u>80,002</u>
<b>Other Financing Sources (Uses)</b>				
Transfers from Other Funds	201,379	20,373	153,000	374,752
Transfers to Other Funds	(123,000)	(189,783)	(61,969)	(374,752)
Total Other Financing Sources (Uses)	<u>78,379</u>	<u>(169,410)</u>	<u>91,031</u>	
Net Change in Fund Balances	99,763	(21,371)	1,610	80,002
Fund Balances - Beginning (Restated)	<u>51,180</u>	<u>105,310</u>	<u>21,526</u>	<u>178,016</u>
Fund Balances - Ending	<u>\$ 150,943</u>	<u>\$ 83,939</u>	<u>\$ 23,136</u>	<u>\$ 258,018</u>

The accompanying notes are an integral part of the financial statements.

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**OWSLEY COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**



**OWSLEY COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2004**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$	80,002
--	----	--------

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		676,896
----------------	--	---------

Depreciation Expense		(84,834)
----------------------	--	----------

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds.

These transactions, however, have no effect on net assets.

Financing Obligation Proceeds		(169,193)
-------------------------------	--	-----------

Loan Receivable used to offset long-term debt		(8,660)
---	--	---------

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations Principal Amount		36,500
--	--	--------

Change in Net Assets of Governmental Activities	\$	530,711
---	----	---------

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2004**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Loans receivable are recognized on the Statement of Net Assets, but loans receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Owsley County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, as amended by GASB 39, there are no component units which merit consideration as part of the reporting entity.

**C. Owsley County Elected Officials Not Part of Owsley County, Kentucky**

Kentucky law provides for election of the officials below from the geographic area constituting Owsley County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Since there is only one fund type (governmental) presented for Owsley County, major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total for all governmental funds combined. The fiscal court may also designate any fund as major. Major individual governmental funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Ambulance Fund, and the Forest Fire Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, due with 2% discount if paid by November 1, due at face value if paid by December 31, delinquent on and after January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balance may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.



**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Joint Venture**

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, Three Forks Regional Jail is considered a joint venture of the Owsley County Fiscal Court.

On October 6, 2000, the Counties of Lee, Owsley, and Wolfe (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the acquisition, construction, installation, maintenance and financing of the Three Forks Regional Jail. Pursuant to this interlocal agreement, Lee County (the lead county) established the Three Forks Public Properties Corporation, a legally separate organization, to act as an agency and instrumentality of the participating counties in financing the acquisition and construction of the Three Forks Regional Jail. On December 1, 2000, the corporation issued \$6,295,000 of first mortgage revenue bonds.

The only source of funds expected by the Three Forks Public Properties Corporation to meet the debt service requirements of the bonds are the rental payments from the participating counties, as stipulated in the lease and sublease agreements dated October 1, 2000. Pursuant to the lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements of the bonds as follows (the "proportionate share" or "use allowance"): 40% for Lee County, 22% for Owsley County and 38% for Wolfe County.

By execution of the lease and subleases, each county is obligated for the amount of its proportionate share, plus any operating cost allowance required under the lease and subleases.

Each county is liable solely for its own proportionate share of total annual debt service for the bonds and no one county is liable for another county's debt. Payment of the annual debt service for the bonds is dependent upon each participating county paying its respective amount of its use allowance as rent under the lease or sublease, as the case may be, in full.

Each county has agreed in its lease and sublease agreements that in the event a county can not pay its indebtedness, an Ad Valorem Tax will be levied in that county for an amount sufficient to provide full payment of the county's rentals due for that year.

On December 1, 2000, the three participating counties established the Three Forks Regional Jail Authority pursuant to the provisions of KRS 441.800 and KRS 441.810 to act as the constituted authority of the participating counties in the acquisition, construction, equipping and operation of the Three Forks Regional Jail.

It is anticipated under the management agreement that the three participating counties will share equally in the operating costs of the facility based on a daily bed allocation of 15 beds at \$25 per day on a take-or-pay basis. It is anticipated under the management agreement that the counties will not be required to make additional payments for the operation of the facility; however, should there be a shortfall in operating revenue, the counties will pay equally to the authority, those moneys required to meet the debt service and operating costs.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Joint Venture (Continued)**

The Three Forks Regional Jail Authority and the Three Fork's Public Properties Corporation are comprised of an eight (8) member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition, the Lee county jailer is a required member of the board.

**Note 2. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, as of August 31, 2003, the collateral and the FDIC insurance together did not equal or exceed the amount on deposit, leaving \$277,472 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2003.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution	264,152
Uncollateralized and uninsured	<u>277,472</u>
Total	<u><u>\$ 641,624</u></u>

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2004 was as follows:

	Primary Government		
	Beginning Balance	Increases	Decreases
Ending Balance			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 83,802	\$	\$ 83,802
Total Capital Assets Not Being Depreciated	83,802		83,802
Capital Assets, Being Depreciated:			
Buildings	924,323	87,980	1,012,303
Vehicles and Equipment	656,269	94,822	751,091
Infrastructure		494,094	494,094
Total Capital Assets Being Depreciated	1,580,592	676,896	2,257,488
Less Accumulated Depreciation For:			
Buildings	(323,848)	(16,046)	(339,894)
Vehicles and Equipment	(378,736)	(33,104)	(411,840)
Infrastructure		(35,684)	(35,684)
Total Accumulated Depreciation	(702,584)	(84,834)	(787,418)
Total Capital Assets, Being Depreciated, Net	878,008	592,062	1,470,070
Governmental Activities Capital Assets, Net	\$ 961,810	\$ 592,062	\$ 1,553,872

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 12,157
Protection to Persons and Property	23,508
General Health and Sanitation	568
Recreation and Culture	1,590
Roads, Including Depreciation of General Infrastructure Assets	47,011
Total Depreciation Expense - Governmental Activities	<u>\$ 84,834</u>

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 4. Loan Receivable**

On March 2, 2000, the Fiscal Court entered into an agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement stated that the Fiscal Court would finance it on behalf of Allen's Ambulance Service. The County is responsible for making the required monthly payments. Allen's Ambulance Service is required to reimburse the County for the monthly payments. As of June 30, 2004, Allen's Ambulance Service owed the County \$8,660 in unpaid loan principal payments (See Note 5B for payment schedule).

**Note 5. Long-term Debt - Capital Leases**

**A. Voting Machines**

On March 2, 2000, Owsley County entered into a lease agreement with Kentucky Area Development Districts Financing Trust for voting machines. The principal amount of the lease was \$48,195. The agreement requires semi-annual interest payments in May and November and annual principal payments in May to be paid in full May 20, 2005. The principal balance of the agreement was \$11,340 as of June 30, 2004. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 11,340	\$ 936
Totals	\$ 11,340	\$ 936

**B. Ambulance – 2000**

On March 2, 2000, the Fiscal Court entered into an agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement stated that the Fiscal Court would finance the purchase on behalf of Allen's Ambulance Service. The County is responsible for making the required monthly payments. Allen's Ambulance Service is required to reimburse the County for the monthly payments. As of June 30, 2004, the remaining principal balance was \$8,660, all of which is a receivable due the County from Allen's Ambulance Service. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 8,660	\$ 714
Totals	\$ 8,660	\$ 714

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 5. Long-term Debt - Capital Leases (Continued)**

**C. John Deere Backhoe**

On June 24, 2003, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of a John Deere backhoe. The principal amount of the lease was \$50,400. The agreement requires monthly interest payments and annual principal payments in January to be paid in full January 20, 2006. The principal amount of \$33,900 was outstanding as of June 30, 2004. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 16,800	\$ 661
2006	17,100	247
Totals	<u>\$ 33,900</u>	<u>\$ 908</u>

**D. Road Equipment**

On June 25, 2004, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of road equipment. The principal amount of the lease was \$169,193. The agreement requires monthly interest payments and annual principal payments in January to be paid in full January 20, 2009. The entire principal balance of the agreement was outstanding as of June 30, 2004. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 31,905	\$ 4,712
2006	32,844	3,683
2007	33,810	2,707
2008	34,805	1,700
2009	<u>35,829</u>	<u>648</u>
Totals	<u>\$ 169,193</u>	<u>\$ 13,450</u>

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 5. Long-term Debt - Capital Leases (Continued)**

**E. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 90,400	\$ 169,193	\$ 36,500	\$ 223,093	68,705
Governmental Activities					
Long-term Liabilities	\$ 90,400	\$ 169,193	\$ 36,500	\$ 223,093	\$ 68,705

**Note 6. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$3,896 in interest on financing obligations.

**Note 7. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

**Note 8. Insurance**

For the fiscal year ended June 30, 2004, Owsley County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2004**  
**(Continued)**

**Note 9. Changes in Accounting Principles and Prior Period Adjustments**

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental activities is an increase of \$871,410 due to capital assets previously not reported.

The beginning net asset balance for governmental activities and the beginning fund balance for the General Fund has been restated for expenditures previously omitted in error that affect the prior year surplus totaling \$60. The effect of the adjustments is a decrease of \$60 to the beginning cash of the General Fund as calculated for the restated net asset figure used in the Statement of Activities.

**Note 10. Estimated Infrastructure Historical Cost**

Several historical cost figures related to buildings, vehicles and equipment, and infrastructure are estimated. The primary government estimated the year some buildings were built or acquired. This estimate was used to calculate the building's historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. The primary government also estimated historical cost figures related to vehicles and equipment. Infrastructure historical costs were estimated by allocating total road and bridge expenditures to individual road and bridge projects completed during the year.

**Note 11. Joint Venture Going Concern**

On May 27, 2005, the Auditor of Public Accounts issued an Independent Auditor's Report on the June 30, 2004, financial statements of the Three Forks Regional Jail Authority. This report outlines that the Three Forks Regional Jail (a joint venture of the Owsley County Fiscal Court) has suffered recurring losses from operations and has a net asset deficiency that raises substantial doubt about its ability to continue as a going concern. The financial situation of the Three Forks Regional Jail has a severe and direct impact on the Owsley County Fiscal Court's current and future budgets. Owsley County's commitment to the Three Forks Regional Jail is outlined in Note 1. A copy of the Three Forks Regional Jail Authority's audit report may be obtained at [www.auditor.ky.gov](http://www.auditor.ky.gov), or in writing at the Auditor of Public Accounts, 105 Sea Hero Road, Suite 2, Frankfort, Kentucky 40601, or by telephone at (502) 573-0050.

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**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2004**



**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2004**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 303,600	\$ 303,600	\$ 322,167	\$ 18,567
In Lieu Tax Payments	17,500	17,500	22,477	4,977
Excess Fees			22,352	22,352
Licenses and Permits	4,500	4,500	372	(4,128)
Intergovernmental Revenue	54,312	212,152	474,787	262,635
Charges for Services	12,352	12,352	15,813	3,461
Miscellaneous	22,160	36,399	42,662	6,263
Interest	1,700	1,700	1,019	(681)
Total Revenues	<u>\$ 416,124</u>	<u>\$ 588,203</u>	<u>\$ 901,649</u>	<u>\$ 313,446</u>
<b>EXPENDITURES</b>				
General Government	355,556	844,314	686,939	157,375
Protection to Persons and Property		44,882	900	43,982
General Health and Sanitation	9,656	9,656	9,656	
Social Services		50,000		50,000
Recreation and Culture		75,000	2,500	72,500
Debt Service	9,864	9,864	25,865	(16,001)
Administration	104,401	155,461	154,405	1,056
Total Expenditures	<u>\$ 479,477</u>	<u>\$ 1,189,177</u>	<u>\$ 880,265</u>	<u>\$ 308,912</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(63,353)</u>	<u>(600,974)</u>	<u>21,384</u>	<u>622,358</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds	193,954	193,954	201,379	7,425
Transfers to Other Funds	(142,601)	(142,601)	(123,000)	19,601
Total Other Financing Sources (Uses)	<u>\$ 51,353</u>	<u>\$ 51,353</u>	<u>\$ 78,379</u>	<u>\$ 27,026</u>
Net Changes in Fund Balance	(12,000)	(549,621)	99,763	649,384
Fund Balance - Beginning (Restated)	<u>12,000</u>	<u>51,240</u>	<u>51,180</u>	<u>60</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (498,381)</u>	<u>\$ 150,943</u>	<u>\$ 649,444</u>

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2004**  
**(Continued)**

	<b>ROAD FUND</b>			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$	\$	\$ 1,757	\$ 1,757
In Lieu Tax Payments	3,100	3,100	16,280	13,180
Intergovernmental Revenue	1,323,185	1,348,185	1,075,558	(272,627)
Miscellaneous	26,820	26,820	6,413	(20,407)
Interest	2,062	2,062	832	(1,230)
Total Revenues	<u>\$ 1,355,167</u>	<u>\$ 1,380,167</u>	<u>\$ 1,100,840</u>	<u>\$ (279,327)</u>
<b>EXPENDITURES</b>				
General Government	\$ 10,800	\$ 10,800	\$ 10,800	\$
Protection to Persons and Property		2,008	1,866	142
Roads	685,862	819,810	738,632	81,178
Debt Service			17,596	(17,596)
Capital Projects	247,000	160,452	72,899	87,553
Administration	262,465	240,065	111,008	129,057
Total Expenditures	<u>\$ 1,206,127</u>	<u>\$ 1,233,135</u>	<u>\$ 952,801</u>	<u>\$ 280,334</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>149,040</u>	<u>147,032</u>	<u>148,039</u>	<u>1,007</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to Other Funds	(193,955)	(193,955)	(189,783)	4,172
Transfers from Other Funds	24,915	24,915	20,373	(4,542)
Total Other Financing Sources (Uses)	<u>(169,040)</u>	<u>(169,040)</u>	<u>(169,410)</u>	<u>(370)</u>
Net Changes in Fund Balance	(20,000)	(22,008)	(21,371)	637
Fund Balance - Beginning	<u>20,000</u>	<u>20,000</u>	<u>105,310</u>	<u>85,310</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (2,008)</u>	<u>\$ 83,939</u>	<u>\$ 85,947</u>

**OWSLEY COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2004**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**OWSLEY COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2004**





**OWSLEY COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2004**

	<u>Special Revenue Funds</u>				
	<u>Jail Fund</u>	<u>LGEA Fund</u>	<u>Ambulance Fund</u>	<u>Forest Fire Fund</u>	<u>Total Non-Major Governmental Funds</u>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 14,691	\$ 8,445	\$	\$	\$ 23,136
Total Assets	<u>\$ 14,691</u>	<u>\$ 8,445</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,136</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 368	\$	\$	\$	\$ 368
Unreserved:					
Special Revenue Funds	<u>14,323</u>	<u>8,445</u>			<u>22,768</u>
Total Fund Balances	<u>\$ 14,691</u>	<u>\$ 8,445</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,136</u>

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**OWSLEY COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2004**



**OWSLEY COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2004**

	<b>Special Revenue Funds</b>				
	<b>Jail Fund</b>	<b>LGEA Fund</b>	<b>Ambulance Fund</b>	<b>Forest Fire Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>					
Taxes	\$	\$	\$	\$ 60	\$ 60
Intergovernmental	33,927	91,182			125,109
Miscellaneous	2,604	360			2,964
Interest	62	100	6		168
Total Revenues	<u>\$ 36,593</u>	<u>\$ 91,642</u>	<u>\$ 6</u>	<u>\$ 60</u>	<u>\$ 128,301</u>
<b>EXPENDITURES</b>					
General Government	\$	\$ 7,200	\$	\$	\$ 7,200
Protection to Persons and Property	174,917	24,115			199,032
General Health & Sanitation		2,697			2,697
Social Services		3,000			3,000
Administration	3,510	2,283			5,793
Total Expenditures	<u>\$ 178,427</u>	<u>\$ 39,295</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 217,722</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(141,834)</u>	<u>52,347</u>	<u>6</u>	<u>60</u>	<u>(89,421)</u>
<b>Other Financing Sources (Uses)</b>					
Transfers from Other Funds	153,000				153,000
Transfers to Other Funds		(50,000)	(11,596)	(373)	(61,969)
Total Other Financing Sources (Uses)	<u>153,000</u>	<u>(50,000)</u>	<u>(11,596)</u>	<u>(373)</u>	<u>91,031</u>
Net Change in Fund Balances	11,166	2,347	(11,590)	(313)	1,610
Fund Balances - Beginning	3,525	6,098	11,590	313	21,526
Fund Balances - Ending	<u>\$ 14,691</u>	<u>\$ 8,445</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23,136</u>

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**OWSLEY COUNTY  
COMMENT AND RECOMENDATION**

**For The Year Ended June 30, 2004**





**OWSLEY COUNTY  
COMMENT AND RECOMENDATION**

**Fiscal Year Ended June 30, 2004**

NONCOMPLIANCES

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits At All Times

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The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$277,472 of public funds uninsured and unsecured. We recommend the County require the depository institution to pledge or provide sufficient collateral to protect deposits at all times.

*County Judge/Executive Cale Turner's Response: We have discussed this with the bank. We will take care of it.*

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits At All Times

This comment has not been corrected and is repeated in the current year.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Cale Turner, Owsley County Judge/Executive  
Members of the Owsley County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owsley County, Kentucky as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 1, 2005. Owsley County prepares its financial statements in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owsley County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Owsley County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits At All Times



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of Owsley County Fiscal Court, management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
March 1, 2005

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**OWSLEY COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2004**

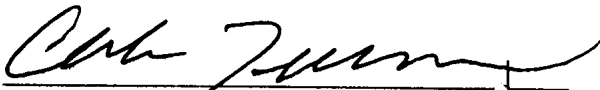




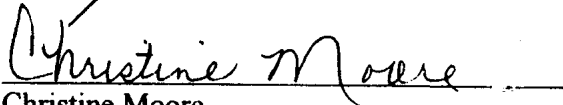
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
OWSLEY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Owsley County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Cale Turner  
County Judge/Executive



Christine Moore  
County Treasurer